

BioMS

Medical Corp.

Management Discussion

And

Analysis of Financial Condition

And

Results of Operations

September 30, 2008

November 6, 2008

For The Three and Nine months ended September 30, 2008

Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations for BioMS Medical Corp. together with its subsidiaries ("BioMS" or the "Corporation") on a consolidated basis should be read in conjunction with the Corporation's unaudited interim consolidated financial statements and accompanying notes for the nine months ended September 30, 2008, as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2007. The unaudited interim consolidated financial statements and comparative information have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Unless otherwise indicated, all amounts shown are in Canadian dollars. This document is current in all material respects as of November 6, 2008.

Forward – Looking Statements

In order to provide investors of BioMS with an understanding of our current results and future prospects, our communications often include written or oral forward-looking statements. This report and other materials filed with the Canadian securities regulators contain statements that are forward looking. These statements represent BioMS' intentions, plans, expectations and beliefs and are based on our experience and our assessment of historical and future trends and the application of key assumptions relating to future events and circumstances. These statements may include, but are not limited to, comments about our objectives and priorities for 2008 and beyond, strategies and targets, expectations for our financial condition, and the outlook for our operations and external factors that may impact results.

Forward-looking statements require assumptions and involve risks and uncertainties related to our business and the general economic environment, many of which are beyond our control. There is significant risk that the predictions, forecasts, conclusions or projections we make will not prove to be accurate and that may cause our actual results to be materially different from the targets, expectations, estimates or intentions expressed in the forward-looking statements. We caution readers of this report not to place undue reliance on our forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic conditions in the countries in which we operate; currency fluctuations; our ability to execute projects ; our ability to execute our strategic plans; our ability to attract and retain qualified employees; our ability to contain expenses; technology changes and research and development; availability of financial resources to carry out our strategy; our ability to protect our intellectual and intangible properties; legal claims; critical accounting estimates; the possible effects on our activities of war or terrorist activities; disease or illness that affects local, national or international economies; and disruptions to public infrastructure, such as transportation, communications, power or water supply. We caution that this list is not exhaustive of all possible factors.

When relying on forward-looking statements to make decisions with respect to BioMS, investors should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Unless required by law, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the Corporation or on its behalf.

Overview

BioMS is a development stage corporation that was founded in 2000, with its primary focus being the development and commercialization of a medical treatment for Multiple Sclerosis (“MS”). As such, the Corporation’s focus is not on earnings, but rather that it has adequate financial resources to fund the research and development programs it conducts. As discussed more fully in the liquidity section of this document, the Corporation believes it currently has adequate resources to fund the expected costs of the current initiated clinical trials up to the completion of the Maestro-01 clinical trial.

BioMS is listed on the Toronto Stock Exchange (“TSX”) under the trading symbol “MS” and at September 30, 2008 there were 91,086,323 (December 31, 2007 - 91,410,323) Class “A” common shares of the Corporation issued and outstanding.

BioMS Technology Corp., a wholly owned subsidiary of BioMS Medical Corp., has licensed a synthetic peptide technology, MBP8298, for the treatment of MS on an exclusive worldwide basis.

The International Nonproprietary Name (“INN”) expert committee recently accepted the proposed generic name of the Corporation’s lead MS drug, MBP8298. Therefore, MPB8298 will now be referred to as dirucotide. The name will serve to identify the active pharmaceutical substance during the drug’s life-time worldwide.

MS is generally considered an autoimmune disease, in which the immune system erroneously attacks normal components of the central nervous system. Dirucotide is a synthetic peptide identical to a segment of human myelin basic protein (“MBP”) that has been identified as the most common site of attack by the immune system. Clinical studies have provided evidence that intravenous administration of a large dose of soluble dirucotide to MS patients every 6 months can restore and maintain the normal state of immunologic tolerance toward this body component, and that disease progression is delayed by this treatment in up to 75% of patients. To date, dirucotide has successfully undergone Phase I and II clinical trials. Currently, BioMS is conducting three clinical trials and one open-label follow-on trial for dirucotide:

- **Maestro-01:** A pivotal phase II/III trial in Canada and Western Europe evaluating dirucotide for the treatment of secondary progressive MS (“SPMS”). On January 22, 2007, BioMS announced that the trial had completed full recruitment of 611 patients at 47 trial sites in 9 countries. Patients are administered either dirucotide or placebo every six months for a period of two years. To date, there have been nine positive safety reviews from the Data Safety Monitoring Board (“DSMB”). On August 13, 2008 the DSMB conducted a scheduled interim analysis of efficacy and safety and recommended that the trial continue to completion. The interim analysis included patients from the first 200 to complete Maestro-01 and assessed the likelihood of the study reaching its primary endpoint at the end of the trial in MS patients with the target HLA-DR2 and/or HLA-DR4 immune response genes. Based on the DSMB decision Eli Lilly and Company agreed to provide the US\$10 million milestone payment to BioMS as part of the terms of the licensing and collaboration agreement.

- **Maestro-02:** An open-label follow-on study to the Maestro-01 pivotal trial. Eligible patients who have successfully completed the blinded, placebo controlled Maestro-01 trial may choose to receive dirucotide on an un-blinded basis. To date approximately 95% of the eligible patients that have successfully completed the Maestro-01 trial have enrolled in this follow-on study.

- **Maestro-03:** BioMS received clearance from the Food and Drug Administration (“FDA”) in the United States (“U.S.” or “US”) to conduct a pivotal phase III trial evaluating dirucotide for the treatment of SPMS. The trial is a randomized, double-blind study enrolling approximately 510 patients at approximately 68 sites across the U.S. Enrollment was initiated in June, 2007 and on August 1, 2008 recruitment of patients for the trial was completed. To date, the DSMB has conducted three reviews of the data from this trial and has recommended that the trial continue. In September, 2008 the FDA granted fast track designation for dirucotide (MBP8298). Fast Track designation is an FDA status reserved for products that are intended to treat a serious or life-threatening condition and that demonstrate the potential to address unmet medical needs for that condition. Fast track designation can potentially facilitate development and expedite the review process.

- **Mindset-01:** A phase II clinical trial to evaluate dirucotide for the treatment of relapsing remitting MS (“RRMS”). The trial, a randomized, double-blind study, has recruited 218 patients at 24 trial sites in 6 countries across Europe. The DSMB has completed six safety analyses and recommended that the trial continue as per the protocol.

Licensing and Development Agreement with Eli Lilly and Company

On December 17, 2007, the Corporation entered into a licensing and development agreement granting Eli Lilly and Company (“Lilly”) exclusive worldwide rights to its lead MS compound dirucotide. Under the terms of the agreement, Lilly and BioMS will collaborate on the development of dirucotide and will also share in certain development costs with Lilly being responsible for future research and development, manufacturing and marketing activities. The transaction closed on January 25, 2008, when all conditions were removed, with the receipt of an upfront payment of US \$87 million. In September 2008, the Corporation received its first development milestone payment of US \$10 million as a result of the positive interim analysis for Maestro-01 received from the DSMB for the SPMS indication. BioMS has the potential of receiving future development and sales milestones up to US \$400 million and escalating royalties on sales commensurate with the current stage of development of the product if dirucotide is commercialized. All upfront and development milestones are non-refundable and non-creditable against any other payments. BioMS will continue to oversee the current clinical trials and the manufacture of clinical materials through the completion of the 2008 validation batches of the drug product until the date on which Lilly accepts the written report of the final results of the Maestro-01 clinical trial delivered from BioMS.

Lilly shall notify BioMS in writing not later than sixty (60) days following receipt of the final written report of the results of the Maestro-01 clinical trial whether Lilly has elected to terminate the agreement on account of the results of the Maestro-01 clinical trial. Once Lilly receives the report and if they choose not to terminate the agreement, Lilly shall bear one hundred percent (100%) of any and all continuing development costs incurred by Lilly or BioMS. The agreement will terminate in each country on the expiration of the last-to-expire BioMS Licensed Patent having a valid claim covering the manufacture, use or sale of the product in the field in each country. The agreement may also be terminated at any time during the term upon written notice by either party for material breach or at any time on ninety (90) days notice.

Discussion of Operations and Financial Condition

The consolidated net income of the Corporation for the three months ended September 30, 2008 was \$6.3 million or \$0.07 per share compared with a consolidated net loss of (\$10.9) million or (\$0.12) per share for the previous year. The results for the three months ended September 30, 2008 included the recognition as revenue of \$16.1 million from the licensing agreement with Lilly. Research and development expenditures decreased by \$1.0 million, general and administrative expenses increased by \$0.2 million, investment income increased by \$0.2 million and there was a foreign exchange gain of \$1.4 million in the three months ended September 30, 2008 compared to the same period in the previous year.

The consolidated net loss of the Corporation for the nine months ended September 30, 2008 was (\$0.8) million or (\$0.01) per share compared with a consolidated net loss of (\$35.5) million or (\$0.43) per share for the same period in 2007. Research and development expenditures increased by \$3.0 million, general and administrative expenses increased by \$6.5 million, investment income increased by \$0.6 million, there was a foreign exchange gain of \$2.7 million and there was an increase in revenue earned from our collaboration partner of \$40.1 million in the nine months ended September 30, 2008 compared to the same period in 2007. It is expected that total research and development expenses will remain constant over the next 2 years as the dirucotide clinical trials, Maestro-01 and Mindset-01, near completion and Maestro-02 and Maestro-03, increase in number of patients under treatment.

Revenue and deferred revenue

Revenue in the amount of \$ 16.1 million for the three months and \$40.1 million for the nine months was recorded to September 30, 2008 as compared to \$Nil revenue for the three months and nine months ended September 30, 2007. The revenue is the result of recognizing a portion of the upfront payment and development milestone for the positive interim analysis related to the Maestro-01 clinical trial received from the licensing agreement with Lilly.

The licensing revenue represents the amortization of deferred revenue from the US\$87 million upfront licensing fee payment and the US\$10 million development milestone payment received from Lilly from the license agreement that closed on January 25, 2008. The deferred revenue is recorded as revenue as the Corporation incurs the costs related to meeting its obligations under the terms of the licensing agreement. The remaining balance of \$58.1 million of the deferred revenue from the Lilly licensing agreement will be recognized as revenue as the related costs of BioMS under the terms of the agreement are incurred.

Initial upfront payments, which require the Corporation's ongoing involvement and commitment, are deferred and amortized into income over the estimated period of the Corporation's involvement and commitment, which varies based on the ratio of costs expended to total estimated costs required to complete the Corporation's obligations related to the licensing agreement. If the Corporation cannot reasonably estimate when its performance obligation ceases then the revenue is deferred indefinitely. Once this estimation can be made, the revenue will be recognized in accordance with the policy described above.

Expenses

Total consolidated expenses for the three months ended September 30, 2008 were \$11.8 million as compared with \$10.6 million in the three months ended September 30, 2007. Expenses related to the Corporation's direct research and development efforts accounted for \$10.1 million or 86% of all expenses as compared with \$9.1 million or 86% in 2007. Total consolidated expenses for the nine months ended September 30, 2008 were \$45.4 million as compared with \$36.0 million in the nine months ended September 30, 2007.

Research and development

Research and development expenses for the three months ended September 30, 2008 totaled \$10.1 million compared with \$9.1 million in 2007. Research and development expenses represented approximately 86% of total gross expenses for the Corporation in 2008 compared with approximately 86% in 2007. The increase of \$1.0 million is attributable to a combination of factors the most significant being: a \$2.1 million increase in the clinical trial expenses related to the Maestro-03 trial, a \$0.9 million decrease in drug manufacturing expenses. Research and development expenses for the nine months ended September 30, 2008 totaled \$32.6 million compared with \$29.6 million in 2007. The increase of \$3.0 million is attributable to the net effect of:

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- a \$4.2 million increase in clinical trial expenses due to a \$0.8 million increase in the number of patients on trials and a licensing bonus payment of \$3.4 million to research and development personnel;
- a decrease of \$3.1 million in drug manufacturing expenses, the result of the completion of the manufacture of validation batches;
- an increase of \$0.2 million in regulatory work; and
- an increase of \$1.7 million in additional research expenses

Description	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Multiple Sclerosis Clinical Trials	\$8,946	\$6,820	\$27,523	\$23,253
Drug Manufacturing for clinical purposes	21	946	913	3,970
Regulatory	245	716	1,277	1,081
Research and licensing	880	610	2,861	1,300
Total	\$10,092	\$9,092	\$32,574	\$29,604
(expressed in thousands of Canadian dollars)				

General and administrative

General and administrative expenses increased to \$1.3 million for the three months ended September 30, 2008 an increase from \$1.1 million in the three months ended September 30, 2007. General and administrative expenses represented approximately 11% of total gross expenses for the Corporation in 2008 compared with approximately 10% in 2007. The increase of \$0.2 million is the result of a general increase in expenses from the same period in the previous year. General and administrative expenses increased to \$11.6 million for the nine months ended September 30, 2008 an increase from \$5.2 million in the nine months ended September 30, 2007. The increase of \$6.3 million was the result of: one-time licensing bonuses of \$5.6 million paid to corporate administrative personnel, costs associated with the completion of the licensing agreement and a general increase in expenses over the previous year.

Investment Income

Investment income earned on funds invested was \$0.6 million for the three months ended September 30, 2008, as compared to \$0.4 million in the previous year. For the nine months ended September 30, 2008, investment income was \$1.9 million compared to \$1.3 million in 2007. The investment income is earned from the short-term investment of cash reserves in low risk term deposits and bankers acceptance notes. The Corporation expects that investment income will continue to fluctuate in relation to prevailing interest rates and amounts of cash reserves invested.

Liquidity and Solvency

At September 30, 2008, cash and short-term investments totaled \$98.8 million as compared to \$37.9 million at December 31, 2007. At September 30, 2008, the Corporation had working capital of \$94.0 million (excluding the current portion of deferred revenue which does not represent a cash obligation) as compared to \$34.8 million at December 31, 2007. Management estimates that the current working capital is sufficient for the Corporation to meet its obligations in respect of the currently initiated clinical trials for which it is responsible under the Lilly agreement.

The Corporation's capital needs consist of financing its research and development activities, corporate administration, working capital and capital expenditures.

From inception, the Corporation has financed its research and development programs, its operations and required capital expenditures from public and private sales of equity, the exercise of warrants and stock options, interest earned on cash and cash equivalents and short-term investments and licensing payments from its licensing partner. To maximize value from its capital resources and ensure overall financial stability, the Corporation has developed financial planning, budgeting, monitoring and governance systems to ensure that the Corporation is fiscally responsible.

Normal course issuer bid

On August 24, 2007, the Corporation received approval for a normal course issuer bid allowing the Corporation to repurchase up to 1,000,000 Class A common shares during the period of August 24, 2007 to August 23, 2008 at the market price at the time of repurchase. The Corporation has acquired 343,300 of its common shares at an average price of \$3.37 per share. 53,300 common shares were repurchased in the three-months ended September 30, 2008 at an average price of \$3.14 per share. For the nine-months ended September 30, 2008 the Corporation repurchased 334,800 common shares at an average price of \$3.45 per share. 8,500 common shares were repurchased in the three-months ended September 30, 2007 at an average price of \$1.84.

On September 8, 2008, the Corporation received approval to renew its normal course issuer bid allowing the Corporation to repurchase up to 1,000,000 Class A common shares during the period of September 8, 2008 to September 7, 2009 at the market price at the time of repurchase. The Corporation has acquired 23,100 of its common shares at an average price \$3.19 per share during the three-months ended September 30, 2008.

All common shares acquired by the Corporation pursuant to the normal course issuer bids were cancelled by the Corporation. The shortfall of the purchase price over the stated capital of the common shares has been credited to the deficit.

BioMS has implemented a disciplined approach to the management of liquidity, capital and overall stability. The Corporation invests its cash reserves primarily in liquid short term bank acceptances and Guaranteed Investment Certificates ("GIC") with maturities of less than 1 year; however, the average term to maturity will be approximately 90 days.

The Corporation had an increase in cash and cash equivalents of \$0.4 million for the three months ended September 30, 2008 as compared to a decrease of \$9.2 million in the three months ended September 30, 2007. The increase in cash and cash equivalents in the three months ended September 30, 2008 is the result of the receipt of the development milestone payment received from Lily that was used to offset expenditures on operations. In the three months ended September 30, 2007 the decrease in cash was the net result of \$9.2 million used in operations. In the nine months ended September 30, 2008 the Corporation had a net increase of cash and cash equivalents of \$60.8 million as compared with a net increase of \$7.3 million in the same period in 2007. The increase was the net result of the receipt of the upfront licensing fee payment of US\$87 million and development milestone payment for positive interim analysis for Maestro-01 of \$US10 million received from Lilly and the expenses incurred in the operation of the Corporation. The net increase of cash and cash equivalents in the same period in 2007 was the net result of completion of a financing with proceeds for the issuance of share capital of \$44.3 million and the expenses incurred in the operation of the Corporation.

Foreign Exchange

The Corporation's functional currency is the Canadian dollar. The Corporation recorded a foreign exchange translation gain of \$1.4 million for the three months ended September 30, 2008, compared with a loss of \$0.6 million for the three months ended September 30, 2007. The foreign exchange gain was the result of an increase in the value of the Canadian dollar against the US dollar, the EURO, the Swedish Kroners and the British pound. In the nine months ended September 30, 2008, the Corporation recorded a foreign exchange translation gain of \$2.7 million. The Corporation expects to continue to experience fluctuating gains and losses on currency translations as a number of agreements for product and services are in foreign currencies that are in constant movement in relation to the Canadian dollar.

Eight Quarter Review

Financial Information – Quarterly

(expressed in thousands of Canadian dollars except per share amounts)

	2008			2007			2006	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	\$16,096	\$11,231	\$12,769	-	-	-	-	-
Research and development	\$10,092	\$9,339	\$13,143	\$9,303	\$9,092	\$10,237	\$10,275	\$12,517
General and administrative	1,252	1,693	8,695	2,319	1,077	1,466	2,628	1,516
Amortization of licensing costs	368	368	368	368	368	368	368	368
Amortization of property and equipment	38	31	12	34	34	33	33	30
Foreign exchange gain (loss)	1,413	(796)	2,035	(76)	(633)	(141)	1	-
Investment income	554	594	729	393	351	495	405	352
Net income (loss)	\$6,313	\$(402)	\$(6,685)	\$(11,707)	\$(10,853)	\$(11,750)	\$(12,898)	\$(14,079)
Earnings (loss) per common share – basic	\$0.07	\$(0.00)	\$(0.07)	\$(0.13)	\$(0.12)	\$(0.14)	\$(0.17)	\$(0.20)

The quarterly results of the Corporation have fluctuated primarily as a result of the timing of research and development activities.

Related Party Transactions

During the three and nine-months ended September 30, 2008 and 2007, the Corporation paid management services, professional fees, office rent and general administration amounts to companies controlled by directors and officers of the Corporation and professional firms in which certain directors or officers have interests.

(expressed in thousands of Canadian dollars)

	For the three-months ending		For the nine-months ending	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
	\$	\$	\$	\$
Management services	169	163	4,756	488
Office rent	59	45	162	135
Professional fees	54	-	89	217
General administration	25	4	84	58
	306	212	5,091	898

The lease for the office space is on a month to month basis with the lease cost fixed until December 31, 2010 and termination upon six (6) months written notice by either party. During the period the Corporation increased the amount of space occupied.

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Contractual Obligations and Commitments

In continuing operations, the Corporation has periodically entered into long-term contractual arrangements for office facilities, equipment and product manufacturing. The following table presents commitments arising from these arrangements currently in force over the next five years:

Description	Total	< 1 year	1-3 years	> 3 years
Lease for Office Space	\$117,000	\$117,000	\$ -	\$ -
Equipment Lease	72,620	14,000	28,000	30,620
Total Contractual Obligations	\$189,620	\$131,000	\$28,000	\$30,620

The Corporation has entered into Clinical Research Services Agreements with specific clinical research organizations (“CRO”) to conduct the Maestro-01, Maestro-02, Maestro-03 and Mindset-01 clinical trials. The contracts with these CRO’s are payable over the terms of the related clinical trials and can be terminated on notice varying from thirty (30) to ninety (90) days. The timing of payments is dependent on various activities being completed by the CRO, such as the number of monitoring visits being conducted and other trial-related activities. The Corporation is also responsible for the payment of certain pass through costs. As part of the trials, the Corporation also enters into agreements with the clinical investigator sites participating in the clinical trials. These agreements require payments over the course of the trial based on various activities being completed by the site, such as patient visits.

Off-Balance Sheet Arrangements

As of September 30, 2008, the Corporation did not have any material off-balance sheet arrangements other than those listed and described under the Contractual Obligations and Commitments section and those disclosed in Note 16 to the audited consolidated financial statements for the year ended December 31, 2007.

Critical Accounting Estimates

Our discussion and analysis of BioMS' financial condition and the results of operations is based on our unaudited interim consolidated financial statements, which have been prepared in accordance with Canadian GAAP. Our preparation of the unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and, the reported amounts of revenues and expenses during the reporting period presented.

These estimates and judgments are evaluated on an on-going basis and are considered to be reasonable based upon our historical experience and assumptions. Actual results could differ from those estimates made by management.

BioMS' critical accounting estimates discussed below are those we believe are the most important in determining our financial position and results or those which require significant judgment by management. The corresponding accounting policies are summarized in the notes to our consolidated financial statements.

Revenue Recognition

Revenue from collaboration partners may include non-refundable fees, milestone payments, research and development payments, contract manufacturing fees and royalties based on specified percentages of net product sales. The Company recognizes collaborative research and development revenues as services are performed consistent with the performance requirements of the contract. Revenue from non-refundable fees is deferred and recognized ratably over the development period based on the ratio of costs expended to total estimated development costs. Revenue from performance milestones is recognized upon achievement of the milestones as specified in the agreement, provided payment is proportionate to the effort expended as measured by the ratio of costs expended to total estimated development costs. The period and estimated costs of development are reviewed on a regular basis. Revenue from contract manufacturing consists of payments received under the terms of supply agreements for the sale of clinical trial material. Such payments compensates the Company for the cost of manufacturing clinical trial material and is recognized after shipment of the clinical trial material and upon the earlier of the expiration of a specified return period or formal acceptance of the clinical trial material by the customer. Royalty revenues are recognized as earned on an accrual basis in accordance with the terms of the contractual agreements.

Accrued Clinical Trial Costs

The Corporation enters into contracts with independent third parties who conduct clinical trials on behalf of the Corporation. Services rendered include the determination of sites, recruitment of patients, clinical research management and data management. Accruals for clinical trial costs are based on management's best estimate of the number of patients, patient's progression through the trial and costs incurred to date. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

Stock based Compensation

Stock-based compensation is recorded using the fair value based method for stock options issued to employees and non-employees subsequent to January 1, 2003. Under this method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. The Corporation uses the Black-Scholes options pricing model to calculate stock option values, which requires certain assumptions, including the future stock price volatility and expected time to exercise. Changes to any of these assumptions, or the use of a different option pricing model, could produce different fair values for stock-based compensation, which could have a material impact on the Corporation's earnings.

Research and development

Research and development costs consist of direct and indirect expenditures related to our research and development programs that may include technology access and licensing fees related to the use of proprietary third party technologies. Research and development costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization. We assess whether any costs have met the relevant criteria for deferral and amortization at each reporting date. To date, no product research and development costs have been deferred. Should the regulatory agencies approve a clinical product, management will determine whether conditions exist for deferral and amortization of any qualifying development costs. Earnings will be impacted in the period that such development costs are capitalized, and also in each subsequent accounting period as they are amortized.

Income Taxes

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Management provides valuation allowances against the future tax asset for amounts which are not considered "more likely than not" to be realized. In assessing the realizability of tax assets, management considers whether it is more likely than not that some portion or all of the tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The Corporation has determined that a 100% tax valuation allowance is necessary at December 31, 2007. In the event the Corporation was to determine that it would be able to realize its tax asset, an adjustment to the tax asset would increase income in the period in which such determination is made.

Changes in Accounting Policies

a) Capital disclosures

Effective January 1, 2008, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, Capital Disclosures. This standard requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This standard was adopted on January 1, 2008. The disclosure requirements pertaining to this new standard is included in note 9 of the unaudited interim consolidated financial statements.

b) Financial instruments – Disclosure and Financial Instruments – Presentation

Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing the Corporation’s disclosure requirements, and carrying forward unchanged the Corporation’s presentation requirements. Disclosure requirements pertaining to Section 3862 are contained in note 8 of the unaudited interim consolidated financial statements. Adoption of Section 3863 had no impact on the Corporation’s presentation of financial instruments.

c) Revenue recognition

Revenue from collaboration partners may include non-refundable fees, milestone payments, research and development payments, contract manufacturing fees and royalties based on specified percentages of net product sales.

The Company recognizes collaborative research and development revenues as services are performed consistent with the performance requirements of the contract. Revenue from non-refundable fees is deferred and recognized ratably over the development period based on the ratio of costs expended to total estimated development costs. Revenue from performance milestones is recognized upon achievement of the milestones as specified in the agreement, provided payment is proportionate to the effort expended as measured by the ratio of costs expended to total estimated development costs. The period and estimated costs of development are reviewed on a regular basis.

Revenue from contract manufacturing consists of payments received under the terms of supply agreements for the sale of clinical trial material. Such payments compensates the Company for the cost of manufacturing clinical trial material and is recognized after shipment of the clinical trial material and upon the earlier of the expiration of a specified return period or formal acceptance of the clinical trial material by the customer.

Royalty revenues are recognized as earned on an accrual basis in accordance with the terms of the contractual agreements.

d) Inventories

Effective January 1, 2008, the Company adopted CICA Section 3031 “Inventories”. This Section prescribes the measurement of inventory at the lower of cost and net realizable value. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. This Section did not have a material effect on the Company's unaudited interim consolidated financial statements.

Future accounting pronouncements

a) Convergence to International Financial Reporting Standards (“IFRS”)

In 2006, Canada's Accounting Standards Board (“AcSB”) ratified a strategic plan that will result in Canadian GAAP, as used by public entities, being converged with IFRS over a transitional period. The changeover date from current Canadian GAAP to IFRS will be January 1, 2011. The impact of this transition on the Corporation's consolidated financial statements has not yet been determined; however, management continues to monitor these regulatory developments and plan the implementation of IFRS.

Share Information

As at September 30, 2008, the following class of shares and equity securities potentially convertible into common shares were outstanding:

	September 30, 2008	December 31, 2007
Class A common shares	91,086,323	91,410,323
Convertible equity securities		
Warrants	26,021,528	26,021,528
Stock options	9,161,500	7,831,000

Risks and Uncertainties

The Corporation's operations involve certain risks and uncertainties that are inherent to the Corporation's industry. The most significant known risks and uncertainties faced by the Corporation are described below. See the 2007 Annual Information Form of the Corporation for further detail and discussion of these, and other, risks and uncertainties.

Licenses and Patents

The Corporation's success will depend in part on its ability to obtain licenses and patents, protect its trade secrets and operate without infringing the exclusive rights of other parties. There is no guarantee that any license and patent that will be granted to the Corporation will bring any competitive advantage to the Corporation, that its license and patent protection will not be contested by third parties, or that the licenses and patents of competitors will not be detrimental to the Corporation's commercial activities. It cannot be assured that competitors will not independently develop products similar to the Corporation's products, that they will not imitate the Corporation's products or that they will not circumvent licenses and patents granted to the Corporation.

Clinical Studies

The Corporation has commenced a pivotal Phase II/III clinical trial, Maestro-01, a Phase II clinical trial, Mindset-01, and a pivotal phase III clinical trial, Maestro-03, all in respect of its multiple sclerosis product, dirucotide. These studies require considerable resources from the Corporation. Obtaining positive and conclusive results from these studies are an essential condition of product commercialization. Therefore, unsatisfactory results may considerably hinder the development and commercialization of the Corporation's products.

Regulatory Approvals

In order to commercialize its products and hence generate revenues, the Corporation must first obtain the approval of regulatory agencies in each of the countries where it wishes to sell its products. The Corporation's products may not meet the criteria established by the various agencies and, consequently, may not obtain required approvals for commercialization.

Commercialization

Once commercialized, the Corporation's products may potentially compete with existing products on the market. Various people in the healthcare sector, such as those who may prescribe or dispense the new drugs commercialized by the Corporation and the parties responsible for drug reimbursement, may select other treatments than those offered by the Corporation.

Competition

The Corporation is subject to significant competition from pharmaceutical companies, biotechnology companies, academic and research institutions as well as government agencies with greater capital resources, research and development staffs and facilities who are pursuing the development of products that are similar to the Corporation's. Many of these organizations have marketing capabilities superior to the Corporation's.

Capital Resources

In order to achieve its long term development and commercialization strategy, the Corporation will need to raise additional capital through the issuance of shares or collaboration agreements or partnerships that would allow the Corporation to finance its activities. Nothing guarantees that additional funds will be available or that they may be acquired according to acceptable terms and conditions, allowing the Corporation to successfully market its products. Additional financing may result in dilution of shareholder value.

Human Resources

Members of management and scientists are highly qualified individuals who are essential to the successful research and development of the Corporation's products. Loss of services from a large part of this group or the inability of the Corporation to attract highly qualified personnel could compromise the Corporation's growth.

Volatility of Share Price

The market price of the Corporation's shares is subject to volatility. General market conditions as well as differences between the Corporation's financial, scientific and clinical results and the expectations of securities analysts covering its activities can have a significant impact on the trading price of the Corporation's shares.

Outlook

The Corporation is expecting final trial results for its Maestro-01 trial for SPMS patients in Canada and Europe in the second half of 2009. Eligible patients who have successfully completed the blinded, placebo controlled Maestro-01 trial may choose to receive dirucotide on an un-blinded basis in the open-label follow on study, Maestro-02. The Corporation has completed recruitment of patients for its Maestro-03 trial for SPMS in the U.S. as of August 1, 2008. The 15 month double blind study phase of its Mindset-01 trial for RRMS patients in Europe is expected to be completed by the end of 2008, with results expected in the first quarter of 2009. Patients in this trial will go on to a 12 month active treatment open label extension period. BioMS is responsible for all costs incurred in connection with the conduct of the clinical trials until the date on which BioMS delivers to Lilly a complete written report of the final results of the Maestro-01 trial. At the completion of the Maestro-01 trial, Lilly has the option of either accepting the written report and proceeding with applying for regulatory approval or terminating the agreement and returning all technology and documents to the ownership of BioMS. It is the responsibility of BioMS to notify Lilly of the achievement of development milestones and Lilly shall make the required development milestone payment in a timely manner as stipulated in the agreement.

BioMS expects to continue to incur operating losses until such time as its lead drug, dirucotide for the treatment of MS, has received regulatory approval and is available for commercial production. The Corporation estimates that it has sufficient cash to cover the expected costs of the currently initiated clinical trials for which it is responsible under the Lilly agreement until the completion of the Maestro-01 clinical trial. BioMS does not anticipate that it will be required to approach the equity markets for additional funding for the development of dirucotide. The Corporation's ability to raise capital will depend on equity market conditions at that time.

Internal Control Over Financial Reporting

Management's Annual Report on Internal Control over Financial Reporting

The management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting, and has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management has used the Internal Control – Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of the Corporation's internal control over financial reporting as of December 31, 2007, and has concluded that such internal control over financial reporting is effective. There are no material weaknesses that have been identified by management in this regard.

Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) and concluded that the Corporation's disclosure controls and procedures were effective as of December 31, 2007 and in respect of the 2007 year end reporting period.

For the three and nine month periods ended September 30, 2008, the Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Corporation's internal disclosure controls and procedures and have concluded that the Corporation's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Corporation's internal controls over financial reporting that occurred during the nine month period ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, these controls.

Additional Corporate Information

Additional information on BioMS Medical Corp. may be obtain in its regulatory filings including its Annual Information Form, Information Circular, annual and quarterly reports and proxy circulars filed with the various provincial security commissions in Canada through SEDAR at www.sedar.com or at the Corporation's web site at www.biomsmedical.com .
